

Memorandum of Understanding on Maintenance of Financial Stability

Purpose and organization of participating institutions' activity

1. The Government of the Republic of Moldova (Government), the National Bank of Moldova (NBM), Commission on Economy, Budget and Finance of the Parliament of the Republic of Moldova, National Commission for Financial Market (NCFM) and Deposit Guarantee Fund in Banking System (DGFBS), called as the Parties hereinafter, have signed this Memorandum of Understanding regarding the maintenance of financial stability (hereinafter - Memorandum), which determines the measures to fight the causes of systemic financial crisis, to establish the effective procedures of authorities' interaction and to realize a coordinative approach to bring full confidence in financial institutions.

2. According to the Government's Decree No.449 dated June 2, 2010, a high level National Committee for Financial Stability (NCFS) is established with the overall duty and responsibility of managing and dealing with systemic financial crisis and it will be active until further notice of the Government. To this respect the NCFS will be responsible for:

- a. managing extraordinary financial crisis;
- b. defining the systemic crisis;
- c. presenting to the Government the policy and procedures proposals on deposit protection, banks' capitalization and recapitalization;
- d. establishing unique ways of communication between public authorities involved in managing systemic crisis in the financial sector;
- e. issuing regularly official statements to avoid misinformation;
- f. restoring credibility in the banking system security;
- g. agreeing on all strategic aspects of the Memorandum, which defines the responsibilities of public authorities involved in crisis management in the financial sector;
- h. proposing additional and immediate measures in case of producing of extraordinary crisis in the financial system.

3. This Memorandum determines:

- a) the principles of maintaining financial stability and management of systemic financial crisis;
- b) the obligations and responsibilities of the respective public authorities for maintaining financial stability and for systemic financial crisis management;
- c) information exchange policy;
- d) management principles of applying anti-crisis measures.

4. A systemic financial crisis emerges when problems in one or more financial institution are serious enough to have a significant adverse impact on the real economy. Financial stability can be defined as a situation in the economy, characterized by the absence of the disproportions, which may cause a negative correction of the financial markets, emergence of a systemic financial crisis or inability of the financial institutions to maintain smooth financial system operations. Financial stability is maintained by adequate regulations of the current and

potential risks, by the effectiveness of the risk management and risk redistribution mechanisms, and by the assurance of the public's confidence to the financial system.

Principles of Maintaining Financial Stability and Management of Systemic Financial Crisis

5. The interaction between Parties, NCFS and Parties in the process of maintaining financial stability and management of systemic financial crisis is based on the following core principles:

Coordination – defining the duties and responsibilities of each Party in order to avoid duplication and to realize the coordinative approach;

Opportunity – analysis of the financial soundness indicators for timely identification of vulnerabilities and risks for financial stability in order to take adequate measures;

Effectiveness – development and implementation of comprehensive measures for ensuring an operational decision-making process;

Least Costs – selecting the method (tools, mechanisms) to solve problems in the financial sector with minimum costs to the public;

Transparency – open communication to the public of responsibilities linked with maintaining financial stability, the measures taken and results achieved during their activity;

Exchange of Information – exchange of information necessary for the realization of tasks by each Party in compliance with the requirements on security, confidentiality and secrets protected by law.

Duties and responsibilities of the respective public authorities for maintaining financial stability and for systemic financial crisis management

6. The parties are not limited in making independent decisions in accordance with their functions and powers stipulated in the legislation of the Republic of Moldova. The NCFS will be immediately informed regarding the measures taken during systemic financial crisis. The parties will coordinate in advance the actions they will undertake, as far as they will influence the performances of the other Party (other Parties). The coordination between NCFS and Parties aims to provide market participants' confidence in the system and the measures taken.

7. Composition and basic functions of the NCFS:

a) Prime Minister-Chairman ;

b) Governor of the NBM – vice-chairman, responsible for regulating and supervising the banking activity, ensuring smooth functioning of interbank payments system, providing emergency liquidity support to banks or to the banking market, jointly assessing with the DGFBS the cost of a potential crisis for banks.

- c) Minister of Economy – member, as a link between the NCFS and the Government will maintains coordination between the Parties. He will develop forecasts of the main macroeconomic indicators on short, medium and long term, will participate in the elaboration of law projects and other normative acts on financial and tax reform; will also present to the Government proposals regarding the necessity of depositing public funds in the capital of a bank in difficulty (Tier 1 or 2), announcing state temporary extraordinary guarantee, development of new laws or amendment of the existing ones.
- d) General Secretary of the Government – member, will have the following responsibilities: ensuring, if necessary, the involvement of ministries or other government agencies which do not have representatives in NCFS in the activity and / or presentation at the recommendation of NCFS of information necessary for taking NCFS decision.
- e) Minister of Finance – member, will have the following responsibilities: discussing with relevant bodies regarding the issues related to the budget, providing banks, based on the decision of the Government, with financial support and providing additional funds in accordance with the legislation in force, early redemption of state securities, submitting proposals to amend the Budget Law.
- f) Chairman of the Commission on Economy, Budget and Finance, Parliament of the Republic of Moldova – member, will have the following responsibilities: providing fast information to the Legislative body on NCFS decisions, ensuring coordination of decision-making process from the domain of competence of the legislative body.
- g) Chairman of the NCFM – member, will have the following responsibilities: informing NCFS on the financial situation of institutions under its supervision, including their exposures to vulnerable banks.
- h) General Executive Director of DGFBS – member, will have the following responsibilities: promptly pay by DGFBS of the insured deposits, informing the NCFS of the financial capacity of DGFBS to borrow loans, if necessary, from the market or the Government.

The NCFS may set up sub-committees comprising staff from one or more authorities, which will include expert staff to conduct operations, gather and assess information, contact other authorities, such as Central Banks and Supervisory Authorities of other countries in order to furnish to the NCFS timely data and information.

Duties and Responsibilities of the Government

8. The Government:

- a) evaluates recommendations from the NCFS and takes action if necessary;
- b) conducts an economic policy aimed at the macroeconomic stability maintenance;
- c) ensures the effectiveness of state financial resources use and management of state assets;
- d) maintains the functioning of public authorities and state owned enterprises in a transparent, objective way and provides full information openness;

- e) provides financial support from the state in conformity with this Memorandum and the legislation in force (in the form of direct capital injection or subordinated loans, requiring a state owned bank (or a bank in which the state holds the majority of capital) to get involved via fusion transactions, acquisitions or asset rendering and obligations assumption , issuing a guarantee etc.;
- f) informs the NCFS on the sources of financial support (increasing the Budget deficit, optimization or blocking Budget expense, issuing state securities, finding additional external sources, reviewing the fiscal policy etc.) to enable the Parties to take additional measures if needed;
- g) contributes to the approval of legislation related to the effective management of applying anti-crisis measures in accordance with the principles defined in this Memorandum;
- h) consults the National Bank of Moldova on the decision with regard to the application of safeguard measures, in the event when the systemic crises induces the capital flow in /from the Republic of Moldova that causes or may cause serious difficulties in promoting the monetary and /or foreign exchange policy;
- i) decides on the financial institution to be capitalize on behalf of the Government,
- j) decides and announces about the issued temporary extraordinary deposit guarantee regarding deposits and Bank Holiday; and
- k) contacts the International Financial Institutions in order to obtain additional funding and/or consent to breach already signed agreements due to force majeure.

Duties and Responsibilities of the NBM

9. The NBM contributes to the maintaining of the stability of the banking system and the supervised financial institutions by:
 - a) setting prudential norms, other provisions and limits regarding the activity of financial institutions, supervising their activity, including the quality of financial services offered to the consumers;
 - b) realization of bank restructuring and solving process, in accordance with the legislation in force and the situation of banks in difficulty;
 - c) informing NCFS about the banks that need capital, the need to arrange special administration, liquidation and other measures, and submission, if appropriate, of the relevant proposals;
 - d) ensuring that the banks capitalized by the Government to hold on to the state obligations as long as possible and their sale / repurchase before maturity to be approved by the NBM under a plan agreed with the Ministry of Finance;
 - e) monitoring the financial markets, banks and financial institutions, as well as risk from the related sectors;
 - f) initiates emergency lending to the banks, widens the range of collaterals acceptable from solvent banks, lends to insolvent banks or to banks whose solvency is not clear only against Government Guarantee,
 - g) taking decision on applying the safeguard measures in consultations with the Government, in the event when a systemic crises induces the capital flows in /from the Republic of Moldova that causes or may cause serious difficulties in promoting the monetary and /or foreign exchange policy, as well as informing the NCFS about the violation of safeguard measures requirements discovered during bank inspections,
 - h) implementing the monetary policy to ensure the fundamental objective of the NBM and transparency of monetary policy decisions;

- i) continuous informing of foreign creditors of banks of systemic importance regarding the developments with respect to management of systemic crisis;
- j) operating in the financial market to maintain the optimal liquidity level;
- k) ensuring stable and continuous functioning of the interbank payment system and supervising the payment system in the country;
- l) informing the NCFS about the results of the Rapid Alert System and the financial soundness indicators.

Duties and Responsibilities of the DGFBS

10. The DGFBS is a legal person of public law, which compensates the payment of deposits if they become unavailable. DGFBS contributes to the maintenance of financial system stability and namely:
- a) pays guarantee deposits in accordance with the legislation in force;
 - b) coordinates with NCFS the need to establish payment of special contributions (by taking into consideration the adverse effects on other banks),
 - c) coordinates with NCFS the arrangement of funding from the market or the Government;
 - d) may finance a customer – bank / a bank that takes over the assets and obligations by paying the difference in the case of a P&A transaction (handing over assets and taking over liabilities) in accordance with the legislation in force, of a bank that is under liquidation in connection with its insolvency.

Duties and Responsibilities of NCFM

11. NCFM contributes to the maintenance of the financial system stability by:
- a) authorizing, supervising and regulating the activities on non-bank financial market;
 - b) monitoring and submission of information on non-financial market participants, including risks from the related sectors, which may influence the non-banking sector;
 - c) ensuring transparency on the non-bank financial market;
 - d) recommending guarantee funds for investors;
 - e) adopting necessary measures to avoid the appearance of systemic risk in the non-bank financial market.

Information Exchange Policy

12. Parties will avoid duplication of work and will use standard reporting forms to optimize the presentation of information by respondents.
13. The information exchange is based on the full, free and on – time information provision to the Parties in the volume and format necessary for the qualitative performance of the tasks defined in the Memorandum.
14. The Parties consider the necessity to compile and distribute regularly the financial soundness indicators of financial institutions, non-financial and households sectors.
15. The NBM is responsible for the compilation and dissemination of financial soundness indicators calculated by the concerned state authorities.

- 1) The functions of the NBM are:
 - a) defining the comprehensive list of financial soundness indicators in cooperation with other interested state authorities;
 - b) compilation of financial soundness indicators received from interested state authorities;
 - c) regular dissemination of the financial soundness indicators (at the decision of NCFS);
 - d) implementation in the context of the banking sector of functions specified in item a) - d) of sub-point 2.

- 2) The functions of the interested state authorities, within their jurisdiction, are:
 - a) collecting data needed to calculate the financial soundness indicators;
 - b) improving existing statistical forms (if necessary);
 - c) developing / adjusting the methodology for calculating the financial soundness indicators based on international requirements;
 - d) calculation of financial soundness indicators according to the established methodology;
 - e) transmission to the NBM of information related to the financial soundness indicators.

Management principles for applying anti-crisis measures

16. Prevention of systemic financial crisis and minimization of its negative effects may require various crisis-proof tools and procedures depending on cause-and-effect relations and potential systemic effect of the crisis. At the same time, assessment of necessity and the level of state intervention is based on the following principles:

- a) state support to financial sector is provided in exceptional cases, when it is considered as the only solution to prevent disruption of financial stability;
- b) state support is based on effectiveness and viability and is in line with the proposed plan of the financial institution approved by the relevant supervisory authority,
- c) private sector solutions (recapitalization, mergers and acquisition, P&A etc.) is a priority compared to state intervention, and conditions for realization of private solutions in accordance with the legislation in force will be encouraged;
- d) minimization of the financial risk to the tax payers;
- e) Government guarantee offered to the financial institutions are based on preventing the potential domino effect on bank insolvency;
- f) effective and constructive cooperation of the Parties.

17. In exceptional cases the NBM operates as a lender of last resort in response to threats to financial stability of the banking system. Loans will be granted in accordance with the NBM regulations. The NBM do not contribute with capital in financial institutions.

18. For effective implementation of Management principles for applying anti-crisis measures, the Parties consider the following as the necessary preconditions:

- a) improvement of early warning indicators systems and methodology of assessment of exposure to systemic financial crises; (NBM, NCFM);
- b) elaboration of methods of effectiveness assessment of different forms of state financial support; (NCFS, Government)

- c) elaboration of recapitalization procedures and improvement of financial conditions of financial institutions; (NBM, NCFM)
- d) performing frequent stress testing; (NBM, NCFM)
- e) determination of asset valuation procedures of financial institutions which are subject to state intervention; (NCFS)
- f) development of intervention plans in unexpected situations; (all Parties)
- g) ensuring information transparency by financial institutions. (NBM, NCFM)

Implementation of the Memorandum

19. The Ministry of Finance is authorized to coordinate Government activities on implementation of Memorandum objectives.

20. The parties will prepare the respective amendments to the legislation, if necessary, with a view to implement Memorandum objectives.

21. This Memorandum may be amended or supplemented, if necessary, with the agreement of Parties.

22. This Memorandum will enter into force upon its signing by the Parties.

23. This Memorandum is concluded in 8 (eight) original copies with equal legal power, one for each Party.

Filat Vladimir	Prime minister	_____
Drăguțanu Dorin	Governor of the National Bank of Moldova	_____
Lazăr Valeriu	Deputy prime minister, minister of economy	_____
Bodiu Victor	General Secretary of the Government	_____
Negruța Veaceslav	Minister of finance	_____
Ioniță Veaceslav	Chairman of the Commission on economy, budget and finance Parliament of the Republic of Moldova	_____
Cibotaru Mihail	Chairman of the National Commission for Financial Market	_____
Usatîi Eduard	General Executive Director of the Deposit Guarantee Fond in Banking System	_____